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PRESS BRIEFING

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Good morning. As I promised during my February 18, 2003 informal briefing, I have completed my review of the Republican proposed budget for Fiscal Year 2004. Today I will highlight the key differences between the Republican's proposal and the Governor's proposal.

Transfers and Limited-Time Resources

The Republican budget proposal recommends \$81.3 million less in transfers from other funds than the Governor's budget proposal. These transfer differences are as follows:

	<u>Budget Proposals</u>		<u>Increase (Decrease)</u>
	<u>Governor's</u>	<u>Republican's</u>	
	(Dollars in Millions)		
Transfers from:			
Tobacco Settlement Endowment Fund	\$ 34.0	20.0	(14.0)
Rebuild Iowa Infrastructure Fund	20.0	10.0	(10.0)
Underground Storage Tank Fund	10.0	0.0	(10.0)
Special – Cash Reserve Fund	47.3	0.0	(47.3)
Total transfers	<u>\$111.3</u>	<u>30.0</u>	<u>(81.3)</u>

While the Republican budget significantly reduces the amount of reliance placed on transfers from other funds, the proposal still utilizes the following limited-time resources for General Fund expenditures:

- Over \$130 million for Medicaid shifted to the Senior Living Trust Fund—a fund where additional revenues are expected to cease after the first quarter of Fiscal Year 2004;
- \$30 million of transfers from other funds (as set forth above);
- A \$25 million revenue adjustment from a change in the time period insurance companies can hold unclaimed demutualization proceeds; and
- Approximately \$8 million of interest earnings on monies deposited in the Cash Reserve Fund and the Economic Emergency Fund.

The Republican's proposal places \$193 million of reliance on limited-time resources, which is a little more than 4% of the General Fund budget. That compares to \$274 million of reliance under the Governor's proposal, which is almost 6% of the General Fund budget. Even with this reduction in transfers, reliance on limited-time resources is still significant.

Expenditures

In the expenditure category, the Republican budget reduces base appropriations by \$76.2 million in response to the reductions they made in transfers from other funds and the elimination of several proposed new revenue sources. In addition, the Republican proposal incorporates \$128 million for reinvention savings that will reduce the General Fund base expenditure appropriations. The Governor's proposal recommended \$88.5 million in reinvention savings.

Neither budget proposal provides any details to support these proposed savings. This line item budget recommendation should be accompanied by specific changes proposed to create the savings, the assumptions used, and the actions required to implement. All these details are needed to evaluate the reasonableness of this budget recommendation. The Republican proposal of \$128 million represents almost 3% of the General Fund net expenditure appropriations. The ability to find, evaluate, implement, and realize savings of this magnitude causes me concern. Even if such reinvention savings ideas are developed, I am concerned whether all the actions required to implement the changes can occur quickly enough to realize such large savings during Fiscal Year 2004.

Prior Year Revenue Transfers And Expenditure Shifts

As I emphasized in my March 11, 2003 informal briefing, approximately \$1 billion has been taken from non-general fund resources during Fiscal Years 2001, 2002, and 2003. Approximately \$375 million, or 40 percent, is required to be repaid by statute. Neither the Governor's budget proposal nor the Republican's budget proposal makes mention of this obligation to repay the \$375 million—a liability that is greater than 8% of the General Fund budget for Fiscal Year 2004. Keep in mind another \$130 million of the Senior Living Trust Fund is proposed to be used for Medicaid and an additional \$30 million in transfers are proposed for Fiscal Year 2004.

It is critical that a repayment plan be developed and adhered to for this \$375 million. These repayment expenditures must be incorporated into the General Fund appropriations. Without a repayment plan that is adhered to, these obligations could be deferred indefinitely. It's like having a home mortgage, but there are no required repayments. How many individuals would possess the self-discipline to make monthly repayments?

Furthermore, for the non-general fund resources which are not required to be repaid, careful analysis should be conducted and should include (1) an evaluation of the assets and liabilities related to each of these non-general fund resources, and (2) an assessment of the impact to the services provided by these non-general fund resources if the amounts taken will not be repaid. An evaluation of the impact on the viability of these non-general fund resources must be performed. Only then can the appropriate decisions be made as to whether repayment of the amounts taken should occur.

Good Budgeting Principles

As you will recall, during my February 18, 2003 informal briefing, I stressed the importance of incorporating two additional principles into Iowa's budgeting and planning process—a longer-range focus and clarity.

Longer-range Focus

A longer-range budgeting focus will increase the extent to which our future financial condition is considered in the current year budgeting and appropriations process. This longer-range focus includes incorporating the impacts of our financial obligations—the \$375 million required by statute to be repaid to non-general fund resources. As I mentioned earlier, we must develop a repayment plan and factor these repayments into the General Fund appropriations. While the Republican budget does provide some projections for Fiscal Year 2005, we must move to a three-to-five year focus. This longer-range focus will help reflect the multi-year impacts of the current fiscal year budget and the financial requirements to repay the amounts taken from other funds.

Clarity

The Republican budget could be enhanced by additional information. Again, clarity is needed in how the information is presented and the level of detail that is presented. Both budget proposals fail to provide a summary of what I call “true total General Fund expenditures.” The budget should present in an easy, understandable format the true total costs of the General Fund, regardless of where those expenditures might be shifted from year to year.

Clarity is so essential to the proper understanding of the budget proposals. Let me conclude by adding some clarity on the Governor's proposed budget. The issue—the \$47.3 million special transfer from the Cash Reserve Fund to the General Fund. Following my informal briefing on February 18, 2003, it was reported “Vaudt is wrong to say the Governor's budget uses \$47 million from the cash reserve fund, because an estimated \$59.5 million will be returned to the fund at the end of the budget year.” I do not refute that an estimated \$59.5 million is projected to be returned, but let me explain why approximately \$50 million will be deposited into the Cash Reserve Fund with or without this transfer.

Since the Governor's proposal includes the \$47.3 million special transfer from the Cash Reserve Fund, and the Republican's proposal does not include this transfer, let me illustrate the impact to the Cash Reserve Fund under each proposal.

	Budget Proposals	
	Governor's with \$47.3 million transfer	Republican's without \$47.3 million transfer
	(Dollars in Millions)	
Impact of the spending limitation:		
Estimated revenues	\$4,727.9	4,591.2
99% spending limitation*	4,677.9	4,545.3
Revenues that <u>cannot</u> be spent	\$ 50.0	45.9

*95% of “new revenues,” 99% of other revenues, and 100% of special transfer from Cash Reserve Fund.

Under either budget proposal, approximately \$50 million cannot be spent, and this nonspendable amount is required to be deposited in the Cash Reserve Fund. The following illustrates the impact to the Cash Reserve Fund with and without the special transfer.

	Cash Reserve Fund	
	Governor's with \$47.3 million transfer	Republican's without \$47.3 million transfer
	(Dollars in Millions)	
Beginning balance	\$47.3	47.3
Special transfer to General Fund	(47.3)	(0.0)
99% spending limitation – required deposit	50.0	45.9
Ending balance	<u>\$50.0</u>	<u>93.2</u>

As you can see, the Cash Reserve Fund ending balance under Governor's proposal is significantly lower than under the Republican proposal. That's because the majority of \$47.3 million special transfer from the Cash Reserve Fund is spent. If it was not spent, the deposit to the Cash Reserve Fund under the Governor's proposal would be the \$50.0 million of revenues that cannot be spent under the 99% spending limitation plus the \$47.3 million transferred—or \$97.3 million. It is important you understand that 80% of the \$47.3 million would be spent under the Governor's proposal, and only \$9.5 million of the special transfer is proposed to be returned to the Cash Reserve Fund. That's why I have included the \$47.3 million special transfer in my calculations of the reliance on limited-time resources under the Governor's proposal.

State of Iowa
Fiscal 2004 Budget Proposals
General Fund
(Dollars in Millions)

	Governor's Proposal	Republican's Proposal	Increase (Decrease)
<u>Estimated Revenue:</u>			
General Fund Revenues and Transfers	\$ 5,148.8	5,148.8	-
<u>Revenue Adjustments</u>			
Transfer from:			
Tobacco Settlement Endowment Fund	34.0	20.0	(14.0)
Rebuild Iowa Infrastructure Fund	20.0	10.0	(10.0)
Underground Storage Tank Fund	10.0	-	(10.0)
IRC Update	(0.5)	(0.5)	-
Combined Corporate Tax Reporting	25.0	-	(25.0)
Streamline Sales Tax Project	26.8	-	(26.8)
Changing Timing on Unclaimed Property	25.0	25.0	-
Gaming Enforcement Costs	0.2	-	(0.2)
Interest from Reserve Funds	7.6	7.6	-
DRF Increase Enforcement	1.3	1.3	-
Cap ACE Tax Credits at \$4M	2.0	2.0	-
Reduction in Corporate Refund Interest	0.8	-	(0.8)
Increase Traffic Fines	2.6	-	(2.6)
Total Revenue Adjustments	154.8	65.4	(89.4)
Special Transfer Cash Reserve Fund	47.3	-	(47.3)
	5,350.9	5,214.2	(136.7)
Tax Refunds	(635.0)	(635.0)	-
Accruals	12.0	12.0	-
Total Revenue (A)	4,727.9	4,591.2	(136.7)
Expenditure Limitation (B)	4,677.9	4,545.3	(132.6)
Revenues that <u>cannot</u> be spent (A-B)	50.0	45.9	(4.1)
<u>Estimated Expenditure Appropriations:</u>			
Base appropriations	4,700.4	4,624.2	(76.2)
Reinvention savings	(88.5)	(128.0)	(39.5)
Net	4,611.9	4,496.2	(115.7)
Reversions	(12.5)	(12.5)	-
Net Expenditure Appropriations	4,599.4	4,483.7	(115.7)
Ending Balance	\$ 128.5	107.5	(21.0)

Note: Before collective bargaining impacts and other salary adjustments for Fiscal Year 2004